

## COHASSET SPEC/INCUBATOR BUILDING FEASIBILITY STUDY

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Prepared for the City of Cohasset and Itasca Economic Development Corporation

by

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## EXECUTIVE SUMMARY

In February 2020, the City of Cohasset, Minnesota contracted with The Northspan Group, Inc. to conduct a feasibility study for a speculative (spec) industrial building in its business park. Cohasset is a city of 2,724 in central Itasca County and is currently undergoing structural changes in its local economy. With recent and impending job losses at the city's leading employer, the Boswell Energy Center, local leaders also recognized the value of exploring proactive methods to diversify its economy.

Cohasset area stakeholders recognize the value of an entrepreneur-driven economy that allows new businesses to scale up their operations. A local company has indicated a need for a new 10,000 square foot manufacturing/warehouse facility in the area, and a county-wide economic development group, the Itasca Economic Development Corporation (IEDC), would like to develop an industrial incubator space to give local manufacturers the opportunity to scale up their operations in an affordable, up-to-date facility. As a result, stakeholders with the City of Cohasset and IEDC decided to explore the potential of building a new 30,000 square foot spec building to accommodate both uses. Such a facility would both allow an existing business to gradually scale up its operations and support the growth of new businesses using best practices identified in past research sponsored by the federal Economic Development Administration.

In this report, The Northspan Group, Inc. explores market for and financial feasibility of this proposed spec building. This report includes a variety of components, including:

- A profile of the Itasca County economy
- A lead generation analysis based on deal flow from regional economic development partners and local economic development assets
- Analysis of trends in spec and incubator building development
- Analysis of the Itasca County industrial real estate market, including the suitability of existing buildings and potential sites for the proposed uses
- Financial feasibility analysis of the spec/incubator building

This analysis finds a stable local economy that could benefit from further growth in its manufacturing sector to diversify a currently utility-dominated economy. Both the regional deal flow and a lack of suitable existing industrial buildings support the case for the construction of a new building, and an analysis of the building's financial feasibility shows it can cash flow comfortably in all its first ten years of operation. If established assumptions prove correct, we find that the Cohasset Industrial Park is well-suited to host the new spec building.

## ITASCA COUNTY ECONOMIC PROFILE

Itasca County, originally 5 times the size of Rhode Island, was organized in 1891 as one of the 9 counties developed well before Minnesota became an official state (1858). Over time, the county split into the present-day counties of Carlton, Koochiching, Cass, Lake, St. Louis, as well as portions of Aitkin and Beltrami Counties. In its current boundaries, Itasca ranks third largest county by land in and has a population of 45,237, making it the 22nd-most populous of Minnesota’s 87 counties. Itasca County is in north-central Minnesota northwest of Duluth (St. Louis County) and almost straight north of Minneapolis; its county seat, Grand Rapids, is a regional center.

Historically, Itasca County’s economy has centered on natural resources, including forestry and iron ore mining in the county’s eastern half. While these industries remain major employers for the county and offer opportunities for future growth, job losses at the UPM Blandin paper mill in Grand Rapids<sup>1</sup> and stalled development of a new taconite mining facility in Nashwauk<sup>2</sup> have led to economic diversification. In 2018, Itasca County was awarded an Economic Adjustment Assistance grant by the federal Economic Development Administration as it sought to respond to the latest round of layoffs at UPM Blandin. This grant is the latest in a series of efforts to respond to changes in the Itasca County economy and protect it from the fate of many rural U.S. counties that have seen population and job loss following structural economic changes.

### DEMOGRAPHICS

According to the 2018 American Community Survey, Itasca County has a population of 45,203<sup>3</sup>. The population of Itasca County in 2017 compared to 2010 ACS data shows it has increased by 0.8%; a figure that is low compared to Minnesota’s 5.4% increase over the same time period, but the second-fastest rate among seven counties in northeast Minnesota.

Many of the communities within the county have a population at or below 1,000; Grand Rapids is the county seat and has the largest population, with approximately 11,000 residents. Cohasset is the second-largest city in Itasca County, with a total population of 2,724, or 6% of the total county population. Cohasset’s population has increased by 2.4% since the 2010 Census, outpacing the rest of the county and most of northeast Minnesota.

Like all of Itasca County, the population of Cohasset is largely white; its largest population of color falls under the category of “two or more races,” while the county’s largest group of people of color, Native Americans, is concentrated west of Cohasset on the Leech Lake Reservation. The county has grown somewhat more diverse over the past decade, a trend likely to continue in future years.

**Table 1: Itasca County and Cohasset Population by Gender and Race, 2010 and 2018**

	ITASCA COUNTY				COHASSET			
	2010		2018		2010		2018	
<b>Total Population</b>	44,835		45,203		2,665		2,724	
<b>Male Population</b>	22,509	50.2%	22,913	50.69%	1,286	48.26%	1,391	51.06%
<b>Female Population</b>	22,326	49.8%	22,290	49.31%	1,379	51.74%	1,333	48.94%
<b>White</b>	42,156	94.02%	41,967	92.84%	2,556	94.32%	2,508	92.07%
<b>African American</b>	150	.33%	228	.5%	0	0%	29	1.06%
<b>American Indian</b>	1,394	3.11%	1,663	3.68%	44	1.65%	50	1.84%
<b>Another race</b>	250	.56%	274	.61%	0	0%	5	.18%
<b>Two or more races</b>	885	1.97%	1,070	2.37%	65	2.44%	130	4.77%
<b>Hispanic/Latino</b>	453	1.01%	638	1.41%	0	0%	0	0%

Source: US Census, 2010; American Community Survey, 2018

**Table 2: Itasca County and Cohasset Age Distribution, 2010 and 2018**

ITASCA COUNTY			COHASSET	
Range:	Population Total	Percent of Population	Population Total	Percent of Population
<b>Under 18 years</b>	9,543	21.11%	627	23.01%
<b>18-34 years</b>	7,497	16.58%	433	15.89%
<b>35-64 years</b>	18,237	40.34%	1,134	41.63%
<b>65+ years</b>	9,926	21.90%	530	19.45%

Source: US Census, 2010; American Community Survey, 2018

The median age is 46.1 in Itasca County and 44.2 in Cohasset. Like most of northeast Minnesota, the median age has trended upward since 2010, though Itasca County’s remains lower than many of its neighbors. Cohasset trends somewhat younger than the county, though its overall trends are consistent with those of surrounding areas.

**INCOME AND LABOR FORCE**

The median household income in Itasca County is somewhat lower than the national median of \$61,937, while Cohasset’s is effectively equal to it. Cohasset’s large concentration of utility jobs, which offer relatively high incomes, likely drive this relative affluence. Continued job losses in this sector could lower incomes and increase unemployment in Cohasset.

**Table 3: 2018 Income Distribution by Household/Year**

ITASCA COUNTY		COHASSET		
<b>Median Household Income</b>	<b>\$53,022</b>		<b>\$61,740</b>	
Range:	Population Total:	Population Total:	Population Total:	Percent of Population:
Less than \$25,000	4,463	23.07%	199	18.24%
\$25,000-\$49,999	4,628	23.92%	227	20.81%
\$50,000-\$74,999	2,487	21.13%	211	19.34%
\$75,000-\$99,999	2,487	12.86%	120	11%
\$100,000+	3,681	19.03%	334	30.61%

Source: US Census, 2010; American Community Survey, 2018

The Itasca County labor force totals 22,364. Its 6.9% unemployment rate is among the highest in Minnesota and nearly double the state rate of 3.5%. This unemployment rate is a decline from higher levels at the time of the most recent taconite mining downturn in 2016 but has been slow to recover since, likely due to layoffs at the UPM Blandin paper mill in Grand Rapids and attrition at the Boswell Energy Center, which has sought to avoid layoffs by not replacing employees who retire or leave Minnesota Power.<sup>3</sup>

**Table 4: Itasca County Employment, December 2019**

ITASCA COUNTY		
Range:	Population Total:	Percent of Population:
<b>Under 18 years</b>	22,364	
<b>18-34 years</b>	20,829	93.13%
<b>35-64 years</b>	1,535	6.9%

Source: Minnesota Department of Employment and Economic Development Local Area Unemployment

## LEADING INDUSTRIES

As is the case in many counties, education and health care form the largest share of employment in Itasca County. The county features an unusually large concentration of employment in arts, entertainment, recreation, accommodation, and food services, a reflection of the county's strong tourism industry driven by its natural amenities. Manufacturing is relatively prominent within the county when compared to some of its neighbors, and a concentration in professional services underscores the county's role as a regional center in north central Minnesota. While natural resource-based industries such as mining and forestry do not employ a major portion of the population, they contribute disproportionately to the county's GDP and include some of the county's largest employers.

Manufacturing has shown modest contraction, a decline driven largely by employment loss at the UPM Blandin paper mill in Grand Rapids. Itasca County received a federal EDA economic recovery grant in 2019 in response to layoffs at UPM Blandin; excepting that layoff of 150 workers, manufacturing jobs have been effectively stable over the past decade.

Employment figures in Cohasset are largely consistent with those of the county, with somewhat larger concentrations in education and health care and a smaller proportion of employees in arts, entertainment, recreation, accommodation, and food services. Employment has dropped modestly in Cohasset since 2010, owing largely to decline in arts, entertainment, accommodation, and food services and in public administration.

**Table 5: Itasca County and Cohasset Population by Gender and Race, 2010 and 2018**

	ITASCA COUNTY				COHASSET			
	2010		2018		2010		2018	
<b>Total</b>	<b>19,810</b>		<b>20,192</b>		<b>1,371</b>		<b>1,343</b>	
<b>Educational Services, Health Care, Social Assistance</b>	5,146	25.98%	5,443	26.96%	368	25.75%	390	28.38%
<b>Retail Trade</b>	2,564	12.94%	2,458	12.71%	170	12.58%	179	13.03%
<b>Arts, Entertainment, Recreation, Accommodation,</b>	1,902	9.6%	1,960	9.71%	168	12.44%	138	10.04%
<b>Manufacturing</b>	2,090	10.55%	1,919	9.5%	127	9.04%	131	9.53%
<b>Construction</b>	1,742	8.79%	1,722	8.53%	94	6.96%	109	7.93%
<b>Professional Scientific, Management, Administrative &amp;</b>	1,146	5.78%	1,389	6.93%	70	5.18%	74	5.39%
<b>Transportation, Warehousing, Utilities</b>	1,015	5.12%	1,104	5.67%	92	6.81%	83	6.04%
<b>Public Administration</b>	1,028	5.19%	982	4.86%	118	8.73%	69	5.02%
<b>Finance, Insurance, Real Estate, Rental &amp; Leasing</b>	779	3.93%	827	4.1%	68	5.03%	73	5.31%
<b>Agriculture, Forestry, Fishing, Hunting &amp; Mining</b>	934	4.71%	805	3.99%	34	2.52%	32	2.33%
<b>Other services, except Public Administration</b>	729	3.68%	830	4.11%	7	.52%	37	2.69%
<b>Wholesale Trade</b>	511	2.58%	593	2.94%	47	3.48%	42	3.06%
<b>Information</b>	224	1.13%	150	.74%	8	.59%	17	1.24%

Source: US Census, 2010; American Community Survey, 2018

## LEADING PRIVATE EMPLOYERS

The leading private employers in Itasca County include a diverse array of industries, including health care, manufacturing, and natural resource-based industries. Cohasset's leading employers, however, are noticeably less diverse, and highly concentrated in the rapidly changing utilities sector. It is also home to a facility owned by the second-largest manufacturer in the county, Minnesota Diversified Industries (MDI). *Inflow/Outflow of Commuters*

Cohasset is unique in that its workforce is highly mobile. Only 78 individuals both live and work in Cohasset, while over 1,000 people enter the city daily for their jobs; a plurality come from neighboring Grand Rapids, but Cohasset, owing to major institutional employers such as Minnesota Power's Boswell facility, draws over 60% of its employees from locations other than Grand Rapids or Cohasset. 1,227 resident leave Cohasset daily for work, with nearly 50% of those workers going to Grand Rapids.

**Table 6: Itasca County Leading Private Employers, 2020**

Employer	Number of Employees	Industry	City
Grand Itasca Clinic & Hospital	506	Health Care	Grand Rapids
Keetac	400	Mining	Keewatin
UPM – Blandin Paper Mill	240	Manufacturing	Grand Rapids
Minnesota Power	231	Utilities	Cohasset, Grand Rapids, Coleraine
Arrowhead Promotion & Fulfillment	220	Wholesale Trade	Grand Rapids
Essentia Health	204	Health Care	Grand Rapids, Deer River
MDI	202	Manufacturing	Grand Rapids, Cohasset
Walmart	183	Retail Trade	Grand Rapids
Bigfork Valley Hospital	166	Health Care	Bigfork
ASV	153	Manufacturing	Grand Rapids
Rajala Companies	150	Natural Resources	Deer River, Bigfork

Sources: AtoZ Databases, 2020; Business North, 2019; Minnesota Power, 2019; Grand Rapids Economic Development Authority, 2020.

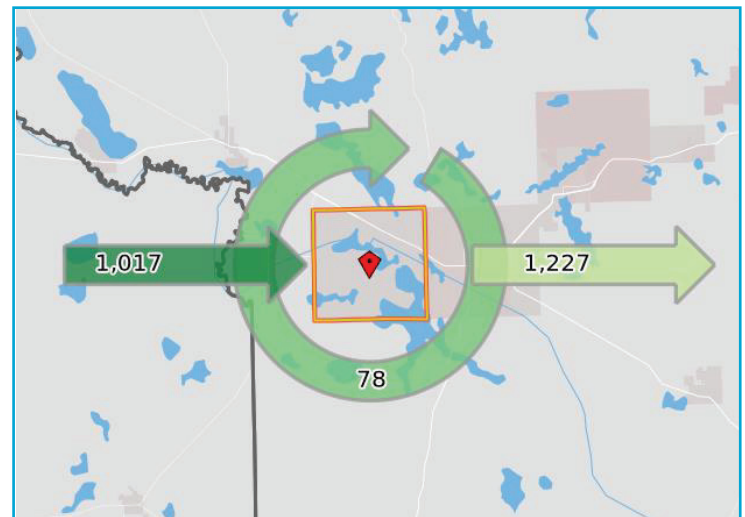
**Table 4: Cohasset Leading Private Employers, 2020**

Employer	Number of Employees	Industry
Minnesota Power – Boswell Energy Center	185	Utilities
MDI - Cohasset	146	Manufacturing
Lake Country Power	120	Utilities

Source: Minnesota Department of Employment and Economic Development Local Area Unemployment Statistics, 2019.

## INFLOW/OUTFLOW OF COMMUTERS

Cohasset is unique in that its workforce is highly mobile. Only 78 individuals both live and work in Cohasset, while over 1,000 people enter the city daily for their jobs; a plurality come from neighboring Grand Rapids, but Cohasset, owing to major institutional employers such as Minnesota Power's Boswell facility, draws over 60% of its employees from locations other than Grand Rapids or Cohasset. 1,227 resident leave Cohasset daily for work, with nearly 50% of those workers going to Grand Rapids.



Source: US Census OnTheMap, 2016.

## EDUCATION

Itasca County features numerous educational assets that help prepare its future workforce. The county is divided among seven school districts, of which the Grand Rapids district is by far the largest, and the district that serves Cohasset residents. A countywide high school graduation rate of 93.4% is very high by national standards, while and the 63.36% of the population with some college or higher educational attainment is high for a rural county. The workforce of Itasca County is highly technically skilled, ranking among the top 15% of counties nationwide for associate's degree attainment. Itasca County is home to one institution of higher education, Itasca Community College, which has notable programs in Accounting/Business, Engineering, Nursing/Health Care, and Wildland Firefighting, and the University of Minnesota's Natural Resources Research Institute operates a research facility in the county.

## TRANSPORTATION AND UTILITIES

Itasca County has numerous transportation assets, including two major federal highways (U.S. 2 and 169), a general aviation airport in Grand Rapids, and two Class I railroads, Burlington Northern Santa Fe (BNSF) and Canadian National. BNSF's line, which connects a major port in Duluth to Grand Forks, North Dakota and major rail corridors to the west, passes through Cohasset.

Three electric utilities, Minnesota Power, Lake Country Power, and the North Itasca Electric Co-Operative, operate in Itasca County, with the latter two operating under the umbrella of the Great River Energy electric co-ops. Minnesota Energy Resources provides natural gas services in most of the county. According to the Blandin Foundation's Minnesota Broadband County Profiles, 83% of Itasca County residents had access to broadband at 100/20 Mbps in 2019, which ranks highly among rural Minnesota counties but nevertheless leaves some gaps in service. The largest providers of broadband services are Mediacom and the rapidly expanding Paul Bunyan Communications.<sup>4</sup>

## IMPLICATIONS

An overview of Itasca County demographics and economic data reveals a county that has weathered difficult economic trends relatively well through increased diversification but faces ongoing pressures to adapt. Its population and incomes are relatively stable despite job losses at major employers and dramatic changes in economic forces, including trends away from coal-fired power plants such as the Boswell Energy Center. Though Cohasset modestly outpaces Itasca County in many indicators, it has long been dependent on several key industries and could improve its resilience through greater diversification. A technically skilled workforce and central, well-connected location in north-central Minnesota position the county for growth in industries such as manufacturing and transportation and logistics, both of which could potentially use a spec building such as the one proposed by the City of Cohasset and IEDC.



## LEAD GENERATION ANALYSIS

This report surveyed a variety of regional economic development organizations for information on their deal flow to understand demand for a 30,000 square foot industrial building. These groups include APEX, a business and economic development organization charged with regional business attraction and retention; the Department of Iron Range Resources and Rehabilitation (DIRRR), a state agency devoted to development in a northeast Minnesota service area that includes Cohasset and most of Itasca County; the Minnesota Department of Employment and Economic Development (DEED); Great River Energy, a local electric utility company; and local units of government.

**Table 8: Regional Economic Development Leads and Jobs Creation for Comparable Businesses**

Industry	No. Leads	Leads w. Job Count	Average Number of Jobs
Manufacturing	20	932	58.25
Forestry/Biofuels	14	208	34.67
Total	34	1,140	51.82

Source: Minnesota Department of Employment and Economic Development Local Area Unemployment Statistics, 2019.

The organizations provided deal sheets that showed leads over the past five years that sought a comparable facility. Table 8 contains an overview of these leads. Together, the economic development partners reported 34 unique leads, including 22 with job counts, that could plausibly use the proposed spec building. These businesses offer job total creation figures ranging from 2 to 200 and averaged about jobs per lead, suggesting pent-up demand and potential for significant employment growth should one of the leads land in the proposed building.

The projects also offer sizeable investment. Nine projects reported a total project investment ranging from \$4-\$15 million, with an average investment of \$8.44 million. According to past DIRRR annual reports, a project of such size would typically rank among the five largest projects annually in its 13,000 square mile service area.

Demand for this sort of facility may also be larger than the data in Table 8 implies. Lake Country Power, the electric utility that serves the Cohasset Industrial Park and much of Itasca County, is under the umbrella of Great River Energy (GRE), a collection of 28 rural electric cooperatives in rural Minnesota. GRE reported that it responds to 10-15 requests for information annually for potential projects seeking industrial buildings between 30,000 and 100,000 square feet. GRE has not considered Itasca County as a site for any of these industrial leads due to its lack of building options. Likewise, DEED identified eight recent manufacturing project that left the area due to inadequate building supply, two that moved to different nearby locations, and five that could use this sort of facility and are currently exploring their options. Should the City of Cohasset proceed with the new spec building, it will be suitable for an array of prospects considering a location in Itasca County and surrounding locations.

More general analysis of entrepreneurialism also sheds light on the potential levels of business creation necessary to support the incubator space. The StatsAmerica Innovation Index 2.0 gives Itasca County rates of establishment formation and establishment births to deaths that exceed the national average (100.5 and 100.9, respectively; an index of 100 is average). Itasca County rates particularly well for the creation of traded sector establishments (105.9), showing that the innovation in Itasca County tends to support businesses with growth potential that export to other markets and tend to offer living wages such as small manufacturers. These businesses also likely tend to be smaller, as the county has a very high index of smaller establishments in “dynamic” industries (146.6) and a relatively low index (81.8) of large establishments. Ultimately, Itasca County’s Business Dynamics Index of 71.6 ranks it 491 out of 3,110 American counties, a uniquely high position for a rural county, and by far the strongest in northeast Minnesota. This level of entrepreneurial activity suggests there is a market for an incubator space in the county.<sup>5</sup>

## SPEC AND INCUBATOR BUILDING DEVELOPMENT TRENDS

Spec building construction is common in large urban markets, but research in more rural areas such as Itasca County is more limited. This report analyzes trends within the industry that can best position buildings for future tenants and assesses the limited examples of spec building development in rural northeast Minnesota.

### NATIONAL SPEC BUILDING TRENDS

The national industrial market has boomed for much of the past decade, and while the market showed some signs of slowing in 2019, forecasts expect continued strong growth. E-commerce drives a substantial amount of the industrial market growth, which has seen rapid expansion in major markets as global logistics networks respond to same-day demand for products and require several hundred thousand square-foot warehouses to meet customer needs.

Current spec building development best practices emphasize flexibility instead of building to guess the needs of an unknown future tenant. Recent trends include parking on both ends of a building footprint, plan for users who will need at least two bays, flexibility in electrical and fire protection design, and space to easily add future features such as larger doors, windows, or ventilation.<sup>6</sup> Wiring for fiberoptic lines with multiple providers and innovative new floor systems that require fewer joints are also emerging as trends that can extend a building's useful life through future trends.<sup>7</sup> These features are largely absent from existing available industrial buildings in Itasca County.

Large industrial distribution warehouses, which dominate discussion of industry trends, often now have ceiling clear heights of 36 feet or even 40 feet in areas with scarce land vacancy. 7-inch floor slabs, LED lighting, 50-to-54-foot column spacing, and 60-foot staging bays have become common standards in major industrial markets. Parking ratios hover around 1 for every 1,000 square feet, plus parking for on-site trailer storage depending on building size; demand for parking has increased in many markets due to increased employee shifts during peak demand times for warehouse facilities.<sup>8</sup> In order to address workforce challenges, some industrial facilities have begun to develop buildings designed to enhance aesthetics and overall workplace environment, as clean, engaging facilities can help attract and retain workers.<sup>9</sup> The development of an incubator space would be an example of such a unique use of an industrial building.

### PAST SPEC DEVELOPMENT IN THE IRON RANGE AREA

Speculative industrial development is relatively rare in rural northeast Minnesota. The most recent of a speculative industrial building involved a \$1.6 million, 30,000 square foot building completed on property owned by the Range Regional Airport in Hibbing in 2007.<sup>10</sup> This building, completed immediately before the start of an economic downturn in 2008, remained vacant until Detroit Diesel expanded its operations into the building in 2013.<sup>11</sup> The new building allowed the company to retain its 100 jobs Hibbing and add 30 since, and the building remains occupied.

Elsewhere in the region, the Hoyt Lakes Economic Development Authority completed a 30,000 square foot spec building in 2002, which was occupied in 2004 by Premier Plastics. Premier leased the facility from the Hoyt Lakes EDA from 2005 to 2016, when its owner exercised a purchase option and shortly thereafter sold Premier Plastics to DOWCO Powersports. DOWCO closed the Hoyt Lakes facility in 2017 and the Hoyt Lakes EDA then repurchased the facility and was able to lease it to its current tenant, Stern Companies, Inc., in 2018. The Department of Iron Range Resources and Rehabilitation

provided a non-recourse loan to assist the Hoyt Lakes EDA with its re-acquisition of the property.<sup>12</sup> A second building, 29,000 square foot in the same industrial park in Hoyt Lakes, completed around the same time as the building now occupied by Stern, housed a rubber manufacturer until 2009 and has been vacant since the business's closure.

Northeast Minnesota's limited experience with spec buildings suggests that they will fill in time but are subject to broader economic pressures and may sit vacant if built immediately prior to a downturn. Regional economic development partners indicated that the relative lack of up-to-date industrial buildings across the region led them to focus their efforts on the handful of newer buildings that do exist.

### **INCUBATOR SPACES IN THE IRON RANGE AREA**

Business incubators, when designed to have a strong vetting processes, staffing and board support, data collection, and exit strategies, have proven successful methods of growing businesses regardless of economic conditions within a region.<sup>13</sup> Rural northeast Minnesota has a limited but successful track record of developing incubator spaces. Itasca County has one space in Grand Rapids known as the IEDC Airport Road Building that has served as an incubator of sorts. This 16,474 square foot building is divided in two spaces, one of which is occupied by a longer-term tenant. A previous tenant of the building, Swan Machine, grew out of the space and now has its own facility, and a current tenant is a growing company with a niche in a regional aviation-related manufacturing supply chain. The building is now full, and even if the current tenant were to grow out of its space or the entire space were to be converted to an incubator, it still would not suit the needs of the tenants of the proposed spec building, as it has just one dock and its smaller size offers little room for growth.

Grand Rapids' experience is consistent with other incubator spaces in northeast Minnesota. In Lake County, Two Harbors successfully developed an incubator space, the North Shore Business Enterprise Center, which rapidly filled and has no vacancy. Aitkin County Growth has developed and sustained several incubators in Aitkin, Minnesota, albeit on a somewhat smaller scale than the proposed facility in Grand Rapids. The lack of vacancy within of these incubators despite their locations in counties with lower innovation and entrepreneurship indices than in Itasca County suggests that such a facility in Itasca County would encounter similar success. These successful incubators have followed similar models to those established by a federal Economic Development Administration and University of Michigan report on best practices and serve as examples for a potential Cohasset fa<sup>1415</sup>

### **ITASCA COUNTY INDUSTRIAL REAL ESTATE MARKET**

This report analyzes both the suitability of existing industrial buildings in Itasca County and the potential of vacant sites in the county for the uses proposed for the spec building. This analysis shows limited available industrial buildings in the county, none of which are fully suitable for the proposed uses, and a handful of sites that could suit the building.

### **ITASCA COUNTY INDUSTRIAL BUILDINGS**

According to a January 2020 Commercial Rent Study by Community and Economic Development Associates (CEDA) and independent research by Northspan, there are few opportunities for leasing industrial space in Itasca County. An analysis of seven currently vacant properties in the county yielded a handful of buildings ranging from 5,400 square feet to 200,000 square feet. However, noticeably absent are industrial building spaces, both for sale or for lease, that fall within the range of 20,000-50,000 square feet. The only existing building of that size, located in the city of Deer River, does not have the wastewater capacity for industrial users. Two properties around 10,000 square feet could not accommodate both the needs of the anchor tenant and the proposed incubator space, while the 200,000 square foot former Ainsworth/JM Longyear building in Grand Rapids is much larger than the necessary space, is designed for specific uses in the wood products industry, and lacks city infrastructure.

**Table 9 : Itasca County Available Industrial Buildings, 2020**

Building Name	Location	Size (square feet)	Utilities	Building Features	Property Cost	Notes
Itasca Eco-Industrial Park Building	Grand Rapids	200,000	Not connected	Eight (8) loading docks Two (2) 25 ton overhead cranes 14 foot overhead doors	Negotiable	Listing managed by IEDC
Multi-Functional Manufacturing Building	Grand Rapids	9,800	Grand Rapids Public Utilities	One (1) loading dock	Sale: \$950,000 Lease: \$16/sf NNN	Listing managed by Close Converse Commercial Real Estate
Commercial Building	Deer River	27,000	City of Deer River	No loading dock Two (2) 20' x 20' commercial doors	Sale only: \$600,000	City of Deer River does not have wastewater capacity for industrial users
Cohasset Industrial Park – Lot 1, Block 4	Cohasset	5,400	City of Cohasset		Lease option only: \$2,500/month Negotiable	Smaller space able to be leased from a current tenant (\$2.16/sq ft)
Warehouse B	Grand Rapids	12,000	Grand Rapids Public Utilities		2,500/avg month (\$2.50/sf)	Lease terms: Month to month Adequate parking, 3 phase power. Listing managed by Rennix Corporation

The CEDA report on Itasca County reveals an industrial building stock that is aging and primarily owner-occupied. There are few opportunities to lease space, and many leasable properties are in poor condition and are not realistically usable without significant renovation. While the 13.3% industrial vacancy rate in the county does not appear overly stressed, limitations with existing buildings are the likely cause of these ongoing vacancies. The vacancy rate for industrial properties is less than half that of commercial properties overall, showing tighter demand in the industrial market relative to the county’s overall building stock. 68% of vacant properties are over 40 years old, and a significant portion of the building stock is over 100 years old.

Industrial space in Itasca County also appears scarcer than in neighboring communities. For example, nearby Hibbing, which is comparable to Grand Rapids in size, currently hosts a minimum of four available industrial buildings in the mid-size range of 20,000 to 28,810 square feet, though many of them are over 30 years old and may therefore have shortcomings that limit their reuse. Other communities that have needs and industries comparable to Itasca County include Bemidji and Brainerd, which are similar in size to Itasca County’s seat of Grand Rapids and serve as regional centers in north-central Minnesota. In Bemidji, there is one existing industrial building totaling 200,000 square feet; like the former Ainsworth/JM Longyear building in Grand Rapids, it operates on a different scale from other properties. In the Brainerd area, however, there at least four leasable industrial spaces available, as well as industrial buildings for sale. These properties range in size from 10,140 square feet to 34,000 square feet and are priced at an average of \$7/square foot. Itasca County’s lack of buildings places it at a competitive disadvantage when compared to areas such as Brainerd.

In Itasca County, according to the CEDA report, industrial lease rates hover between \$4-6 per square foot, with an average of \$5.44. Excluding properties located in Grand Rapids increases the average lease rate to \$5.77 per square foot, though the sample size is relatively small and may skew the figures. Most properties are leased under triple net terms and tend to have extended terms. The CEDA report suggests a tight market with few opportunities for new firms to enter without significant investment in a new facility or rehabilitation of an older facility. Independent research by Northspan, including outreach to property managers, backed up these findings.

Based upon Northspan’s analysis, it appears that there is a gap in Itasca County for leasable, industrial space measuring between 10,000 square feet and 50,000 square feet. If a building of this size were to be available, it could feasibly be rented to an industrial tenant at a market rate cost between \$4-\$6 per square foot.

### ITASCA COUNTY INDUSTRIAL SITES

Northspan used the Northland Connection database of available properties and extensive research work completed by Community and Economic Development Associates (CEDA) in 2019 to document all available sites in Itasca County that could plausibly host a new industrial spec building. Industry trends suggest a land-to-building ratio of 1.5-2.5 is common for industrial buildings.<sup>16</sup> For the proposed 30,000 square foot building, this ratio yields a site of approximately 2-2.5 acres, so Northspan eliminated all smaller sites from consideration. Table 10 presents the remaining sites and their characteristics.

**Table 10: Itasca County Sites Suitable for Industrial Development, 2020**

Site Name	Site Location	Site Size	Divisible	Electric	Water/Wastewater	Gas	Rail	Environmental	Notes:
Minnesota Power Site	Cohasset	40 acres	Yes	Minnesota Power	Cohasset Public Utilities		No		
Cohasset Industrial Park	Cohasset	84 acres	Yes	Lake Country Power	Cohasset Public Utilities	Yes	No	Shovel Ready certification in process	TIF District Multiple lots available ranging in size from 2.5 acres to 84 acres
Blandin Woodyard	Cohasset	60 acres		Lake Country Power	Cohasset Public Utilities	No	No		
Grand Rapids Airport South Industrial Park Phase I	Grand Rapids	33 acres	Yes	Grand Rapids Public Utilities	Grand Rapids Public Utilities	Yes	No		5 available lots ranging from 1.65 - 3.23 acres priced at \$25,000/acre
Grand Rapids Airport South Industrial Park Phase II	Grand Rapids	7.5 acres	Yes	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No	Cleared and graded for construction	6 parcels ranging from 1.25 - 1.37 acres, priced at \$25,000/acre
Grand Rapids Industrial Park East	Grand Rapids	8.19 acres	Yes	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No		6 parcels ranging from 1.25 - 1.37 acres, priced at \$25,000/acre

**Table 10: Itasca County Sites Suitable for Industrial Development, 2020**

Site Name	Site Location	Site Size	Divisible	Electric	Water/Wastewater	Gas	Rail	Environmental	Notes:
Grand Rapids Industrial Park Two	Grand Rapids	2.38 acres	No	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No		Base price \$59,500
Itasca Eco-Industrial Park	Grand Rapids	63 acres	Yes	Lake Country Power	Not Connected	Yes	Yes	Shovel Ready certification in process	
Commercial Land	La Prairie	2.3 acres	No	Grand Rapids Public Utilities	Grand Rapids Public Utilities	Yes	No		
Hwy 169 Lots	Grand Rapids	3.9 acres	Yes	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No		
35462 Beier Road	Grand Rapids	4.7 acres	Unknown	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No	Cleared and graded for construction	
TBD SE 7th Ave Lot	Grand Rapids	13.72 acres	Unknown	Grand Rapids Public Utilities	Grand Rapids Public Utilities		No		
Nashwauk Industrial Park	Nashwauk	20 acres	Yes	Nashwauk Public Utilities	Nashwauk Public Utilities	Yes			Seven 1 acre lots available, 5 lots on south side of park and 2 on north.
Calumet Commercial Land	Calumet	26 acres	Unknown	Unknown	Unknown		No		

Across Itasca County, the bulk of available industrial sites are found in either Grand Rapids or Cohasset. According to the City of Cohasset’s comprehensive plan, development of the business park is its foremost priority for industrial growth, rendering it a more significant area of focus than the other two Cohasset sites.<sup>17</sup> The alignment of the Nashwauk industrial park makes the combination of its 1-acre parcels into an adequate site for the spec building difficult. Several of the sites, including the Beier Road site, Highway 169 site, and LaPrairie site, while officially zoned for potential industrial uses, appear more suited to commercial uses due to their location, size, and the presence of sensitive neighboring uses such as homes and, in the case of the LaPrairie site, a gymnastics academy. Other sites, such as the Calumet site and the SE 7th Avenue site, lack any documented due diligence and do not appear to be ready for immediate development.

The City of Cohasset's industrial park is located approximately 200 yards off Highway 2, one of the main arteries through the County, and provides convenient access to Grand Rapids' amenities. In addition, the Cohasset Industrial Park's sites are effectively shovel ready. The site is fully served by City utilities, and the park is considered a TIF district; regional economic development partners are nearing completion of an application to certify the site as Shovel Ready through the Minnesota Department of Employment and Economic Development and plan to complete it in 2020. Total investment to date to bring the site to this point totals \$4.5 million, and the park has a current tenant that invested \$12.1 million in a new 68,000 square foot building on a 25-acre site and created 65 jobs. The four Grand Rapids industrial park sites are also suitable candidates, though they have not moved as far toward Shovel Ready certification are smaller than the Cohasset Industrial Park. Their smaller size, location near the center of the city, and lack of direct access to a federal highway makes them somewhat less desirable for new tenants.

With the existing infrastructure in place and a location immediately off a federal highway near the county's population center, the Cohasset industrial park is a top choice for the development of a new industrial building. The threat of tax base loss due to planned changes at the Boswell Energy Center also heightens the need for new investment and economic diversification in Cohasset.

## SPEC BUILDING FINANCIAL FEASIBILITY

In order to assess the financial feasibility of the project, Northspan conducted an analysis based on information provided by the City of Cohasset and IEDC. The financial model is based on a project cost of \$2.5 million that is to be funded 80% with a \$2 million Federal Economic Development Administration Grant, with the remaining \$500,000 proposed to be funded by Tax Increment Financing. Table 11 outlines these sources and uses.



**Table 11: Sources and Uses for Proposed Cohasset Spec Building**

**SOURCES AND USES (Year One Totals with one Tenant)**

Source of Funds:	Loan	Grant	Total	
		\$2,000,000.0	\$2,000,000.00	
EDA		0		(can match at either 50/50 or 80/20)
IRR			\$-	(potential for up to \$1M loan, if necessary)
City of Cohasset TIF		\$500,000.00	\$500,000.00	(TIF)
IBDF			\$-	(up to \$750K through IEDC)
		\$2,500,000.0	\$2,500,000.00	
<hr/>				
Use of Funds:	Loan	Grant	Total	
Land & Sitework			\$-	
New Construction		\$2,500,000.0	\$2,500,000.00	
Buildout		0		
Financing Fees			\$-	
Working Capital			\$-	
		\$2,500,000.0	\$2,500,000.00	

This 30,000 square foot facility will be initially leased to a light industrial tenant that will require 10,000 square feet of space. Another 5,000 square feet will be developed as incubator space. Rents for the initial 10,000 square foot tenant will have a \$5 per square foot rate with the tenant also being responsible for utilities and real estate taxes. The incubator space rent will be \$2.50 per square foot.

It is assumed that the remaining 15,000 square feet will be leased by year three in the financial model at the same rental rate of \$5 per square foot plus utilities and real estate taxes. Rental rates will increase after the initial 5 years of the lease and then increase by 5% for the next five years. The building is assumed to be 100% occupied after year three. Table 12 presents 10-year operating costs and net income for the building given these assumptions.



Table 12: Operating Costs for Proposed Cohasset Spec Building

<b>Revenues</b>	<b>YEAR 1</b>	<b>YEAR 2</b>	<b>YEAR 3</b>	<b>YEAR 4</b>	<b>YEAR 5</b>	<b>YEAR 6</b>	<b>YEAR 7</b>	<b>YEAR 8</b>	<b>YEAR 9</b>	<b>YEAR 10</b>
Lease Income Light Industrial Tenant	62,500	63,700	139,900	141,100	142,300	146,000	147,200	152,150	153,350	154,550
Lease Income Incubator	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500
<b>Total Lease Income</b>	<b>75,000</b>	<b>76,200</b>	<b>152,400</b>	<b>153,600</b>	<b>154,800</b>	<b>158,500</b>	<b>159,700</b>	<b>164,650</b>	<b>165,850</b>	<b>167,050</b>
<b>Operating Costs</b>										
Electric/Lighting	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379	7,601	7,829
Gas/Heat (tenant paid)	-	-	-	-	-	-	-	-	-	-
Ground Maintenance	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914
Marketing	10,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
		12,360	12,731	13,113	13,506	13,911	14,329	14,758	15,201	15,657
Property Management	12,000									
		10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
Insurance	10,000									
Legal	5,000	-	5,000	-	-	-	-	-	-	-
Replacement Reserve	-	-	-	-	-	-	-	-	-	-
		13,700	14,900	16,100	17,300	18,500	19,700	20,900	22,100	23,300
Real Estate Taxes	12,500									
Debt Service	-	-	-	-	-	-	-	-	-	-
Garbage/Refuse (tenant paid)	-	-	-	-	-	-	-	-	-	-
<b>Annual Total</b>	<b>58,500</b>	<b>50,630</b>	<b>57,788</b>	<b>54,975</b>	<b>57,191</b>	<b>59,437</b>	<b>61,716</b>	<b>64,026</b>	<b>66,370</b>	<b>68,748</b>
<b>Net Income</b>	<b>16,500</b>	<b>25,570</b>	<b>94,612</b>	<b>98,625</b>	<b>97,609</b>	<b>99,063</b>	<b>97,984</b>	<b>100,624</b>	<b>99,480</b>	<b>98,302</b>

**Here is a recap of the assumptions used in this financial model:**

1. The project assumes the construction of a 30,000 square foot facility having a cost of \$2.5 million.
2. The project is funded 80% by a Federal EDA Grant and 20% by Tax Increment Financing.
3. Lease rates are \$5 per square foot plus utilities for light industrial tenant renting 10,000 square feet.
4. Lease rate for 5,000 square feet of incubator space will be 50% of light industrial rate for the first 2 years.
5. Remaining 15,000 square foot space leased by start of year 3 at \$5 per square foot.
6. leases include payment of real estate taxes.
7. 5% lease rate increases after 5 years.
8. Utility costs will be paid by the tenants.
9. Electric/lighting of facility. LCP \$210/mo, plus 10kwh monthly use.
10. Initial marketing cost of \$10,000 year one and \$5,000 annually thereafter.
11. Owner insurance is based on costs of comparable leased commercial buildings.
12. Management costs \$1000 per month.
13. A 3% cost escalator is applied to the operating expenses.
14. Legal fees of \$5000 for year 1 and year 3 with leases to major tenants.
15. Garbage/refuse is a tenant paid expense.

In summary, revenues range from \$75,000 in year one increasing each year to \$167,050 in year ten. Given that the project's financing is assumed to come from a grant source and Tax Increment Financing the overall operating/financing costs of the building are greatly reduced and provide the opportunity for the building to generate positive cash flow and net income through year one to year ten. Year one net income is \$16,500 and increases to \$100,624 in year eight with a slight decline in net profits in years nine and ten. The building's cash flow and net income provide more than adequate excess cash flow to cover building replacement reserves and potential maintenance and repairs associated with a new commercial building and provide support for future additional commercial development.

## CONCLUSIONS

While Itasca County is not growing at a rapid rate, its diverse economy Cohasset is a relatively well-off community within the county but has a tax base and industry mix highly dependent on two utilities that are major local employers. With looming changes in the industry, Cohasset could benefit from diversification to better match the county's success. Economic development groups serving Itasca County have a strong bench of industrial leads that could plausibly use a spec building, and past development of spec buildings and incubator space in the surrounding region have largely been successful. Itasca County has a very limited supply of industrial buildings, none of which suit the needs of the proposed spec building, and a handful of site options for a new building, of which the Cohasset Industrial Park is the best suited. A financial feasibility analysis of the proposed spec building based on operating assumptions generated by the City of Cohasset and IEDC shows the building will be profitable in all its first ten years of operation. This analysis therefore concludes the spec building in Cohasset is feasible given the established assumptions.



